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Philippines

Wine

Product Brief

2003

Approved by:

Michael D. Woolsey

U.S. Embassy

Prepared by:

Maria Ramona C. Singian and Michael D. Woolsey

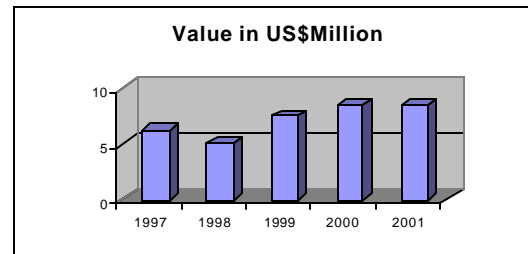
Report Highlights:

The emerging Philippine wine market continues to expand, with sales estimated at more than 7.3 million liters in 2002 (valued at almost \$9 million), up 25 percent from the year before and more than double sales in 1998. U.S. exports jumped 75 percent last year to more than 2.2 million liters (\$3.4 million), surpassing Singapore as the largest U.S. wine market in Southeast Asia. Marketers report that wines selling for less than \$6 at retail account for most sales, although demand for premium products is also on the rise as consumers become more familiar with fine wines. Traders predict continued double-digit annual growth in the near-term, fueled by growing consumer interest and awareness, perceived health benefits of red wine, expansion in number of wines in the market, and stepped up promotions.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Manila [RP1], RP

I. SUMMARY

The emerging Philippine wine market continues to expand, with sales reaching an estimated 7.3 million liters, up by one-fourth from the year before. The United States is the top supplier, accounting for almost one-third of total volume (2.2 million liters), followed by France (1.2 million liters), Spain (890,000 liters) and Australia (580,000 liters). Value-priced wines, led by large-scale producers such as E&J Gallo, account for most U.S. sales and will continue to fuel growth in the near term. Heavy volumes of low-priced table wines are also spurring significant gains in shipments from France and Spain.



Meanwhile, traders report growing interest in premium products as consumer awareness in these wines grows. Continued double-digit annual growth in both premium and value-priced wines is forecast due to growing interest in wine and further penetration into the mass market, perceived health benefits of red wine, expansion in the market to include significant volumes of new world wines, and stepped up promotions.

II. MARKET TRENDS AND OPPORTUNITIES

• Introduction of more affordable wines spurs growth

Philippine wine imports remained sluggish until the late 1990s due to the high price of wines in the market at the time, poor distribution, and perception of wine as a luxury product. Sales picked up dramatically in recent years as both Old and New World suppliers began shipping full container loads of value-priced product, mostly sweet, fruity wines that appealed to local tastes. Wine distribution also improved with more floor space dedicated to wine in supermarkets, specialty shops and discounters, greatly improving visibility and spurring a mass market.

Popular wines in the value segment (priced at less than \$6 retail), which accounts for an estimated three-fourths of sales, include American red wine brands such as Carlo Rossi (currently retailing for \$2.90 per 750 ml bottle at the current exchange rate of 54 pesos/\$) and Frenzia (\$2.22), a wide variety of French wines priced from \$2 - \$3.50, Don Quixote and Don Simon from Spain (\$2.40 - \$2.60) and Novellino "sweet lively red wine" locally made from Italian grapes (\$3.30).

• Wine marketers aim to boost premium segment

Wine importers are building on the recent gains and working to encourage consumers to try mid-range and premium varietals thru product sampling and education. Effective promotions include tastings, wine seminars, and food matching dinners. Particularly popular are wine and food matching that highlight wines paired with Filipino dishes to encourage wine consumption on a regular basis.

Many successful premium wines are first introduced in restaurants, with follow-up purchases at retail. Traders say marketing support is important to ensure a long-term presence. In fact, most Metro Manila restaurants will not carry new wines without marketing incentives. Examples of support include "wine of the month" specials (which typically cost from \$800 to \$1,200 per outlet) and staff incentives (\$0.40-\$0.60/bottle). French and Australian wine marketers reportedly lead the market in providing promotional support.

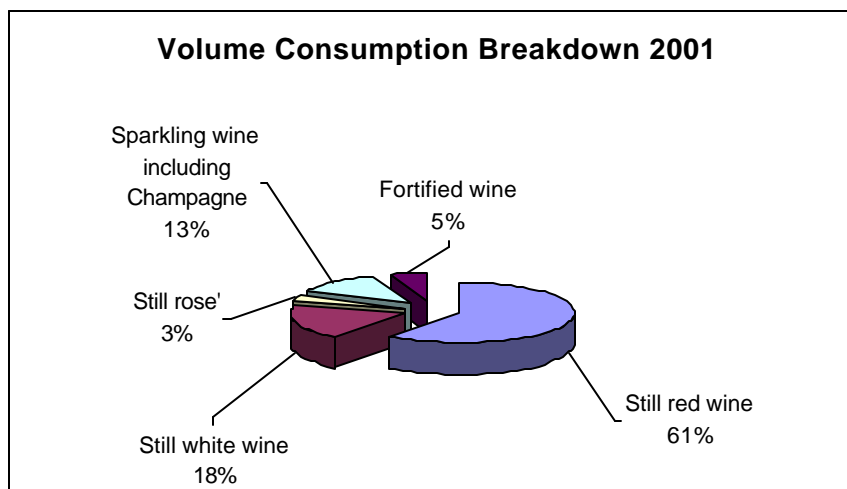
Another promoter of premium wines is the International Wine and Food Society, which has a very active membership base in the Philippines of wine connoisseurs and collectors. Wine magazines and Internet news keep them abreast with the latest in the wine industry. Some of them ventured into the wine importation business as a hobby and to support a passion for collecting rare allocated wines. High-end wines are often pre-sold to end consumers prior to the arrival of the shipment.

Popular U.S. wines in the mid-range segment include a wide variety of reds and whites from Mondavi, E&J Gallo, Fetzer and Sutter Home (priced from \$7.60 to \$11.10 at retail) and Talus Cabernet Sauvignon (\$8.90). Premium wines found throughout Metro Manila supermarkets and wine shops include Beringer Red Zinfandel and Cabernet Sauvignon (\$17.50), Wente Cabernet Sauvignon (\$19.60), Columbia Crest Merlot (\$14.80), and St. Francis Cabernet Sauvignon (\$19.80).

- **Red wines dominate sales**

Red wines are more popular vs. white wines mainly because most Filipino consumers are still unfamiliar with wine color and varieties.

They offer varied reasons to explain their preference for red wine such as superior flavor, less hang-over, and healthiness. A gradual shift toward more white wines is foreseen as consumers learn more about wines and discover white's broader range of flavor. Rosés are still a novelty with only 2-3 facings on retail shelves. Champagne is patronized by the upper class of Filipino society because of its price range. Martini's Asti Spumante became a household term synonymous to sparkling wine and is often given as a gift. Consumers are now discovering that sparkling wines from the New World regions are affordable and an acceptable replacement for Champagne.



- **Filipinos' sweet palate**

Filipinos have a preference for the sweeter varieties of wine. To meet this preference, importers always make sure that a sweeter varietal is always present in rounding up a portfolio of wines. A gradual shift to drier varieties is expected as consumers experiment with more wines and become accustomed to food matching.

- **Growing health trend**

The growing health consciousness among Filipinos is contributing to the growth of the wine market. Wine importers continue to emphasize healthiness as a selling point and use flyers, advertorials, wine tags to communicate the benefits of drinking wine.

The total alcoholic drinks market is estimated at 1,500 million liters. Wine holds less than 1% percent market share, suggesting significant room for growth as consumers look to healthier alternatives to beer and spirits.

- **Ready market for new American wines**

Advantages:

- Filipinos are familiar with California wines especially those from Napa Valley
- There is a growing preference for the sweet Zinfandel variety
- More and more American wines are international recognition and awards

Opportunities:

- Introduce wines from other states such as Washington, Oregon and New York
- Capitalize on the end consumer's desire to learn more about wines by aggressively conducting innovative wine activities during the introduction phase
- Use popular brands to penetrate and gain strong foothold of the mass market
- Tap into available marketing support from wineries and cooperators

Possible Limiting Factors:

- Price range of American wines vs. wines from other New World regions
- Weakening of the peso vs. the dollar

III. MARKET ACCESS

- Import license may be secured from the Philippine Bureau of Food and Drugs (BFAD).
- There are no import quotas for wine products.
- Excise Tax Rates

Description of Article	Tax Rate
A. Sparkling wines/champagne regardless of proof	
A.1. Net retail price per bottle (excluding VAT & excise) is Ps500 or less.	Ps112 per litre
A.2. Net retail price per bottle (excluding VAT & excise) is more than Ps500.	Ps336 per litre
B. Still wines containing 14% of alcohol by volume or less.	Ps13.44 per litre
C. Still wines containing more than 14% but not more than 25% of alcohol by volume.	Ps26.88 per litre

* Ps = Philippine Peso/ PhP

- Import Duty Rates

Heading No.	H.S.Code	Description	Rate of Duty (%)
			2002-2004
2204		Wines of fresh grapes, including fortified wines; grape must (other than vinegar and substitutes for vinegar obtained from acetic acid).	

2204.10 00	- Sparkling wine	5
	- Other wine; grape must with fermentation prevented or arrested by the addition of alcohol.	
2204.21 00	In containers containing 2L or less	5
2204.290	Other	5
2204.30 00	Other grape must	5

- Value-Added Tax (VAT) for wines is 10 percent.
- Label and packaging regulations

The “Principal Display Panel” of the label shall be that part which is present or shown to the consumer under customary conditions of display for retail trade. The “Information Panel” of the label shall be that part immediately contiguous to the principal display panel.

A complete list of ingredients shall be declared in descending order of proportion on either the principal display panel or information panel.

The net content shall be declared using the metric system or measurement or SI (International System of Units) on either the principal display panel or information panel in line generally to the base of the package. For liquid, the declaration shall be made by the product’s volume.

The country of origin shall be indicated if the product is being exported or imported. The name and address of the importer or local distributor shall be declared in the labels of imported products except for sole legal distributors/ importers.

The alcohol content in terms of percentages or proof units shall be indicated on the principal display panel of the label.

The language used for all information on the label shall be either English or any major dialect or a combination thereof. In the case of imported food product, labels wherein the information are declared in a foreign language must also carry the corresponding English translation.

- Required US export documents, certificates, special laboratory and testing requirements

1. Checklist of requirements:

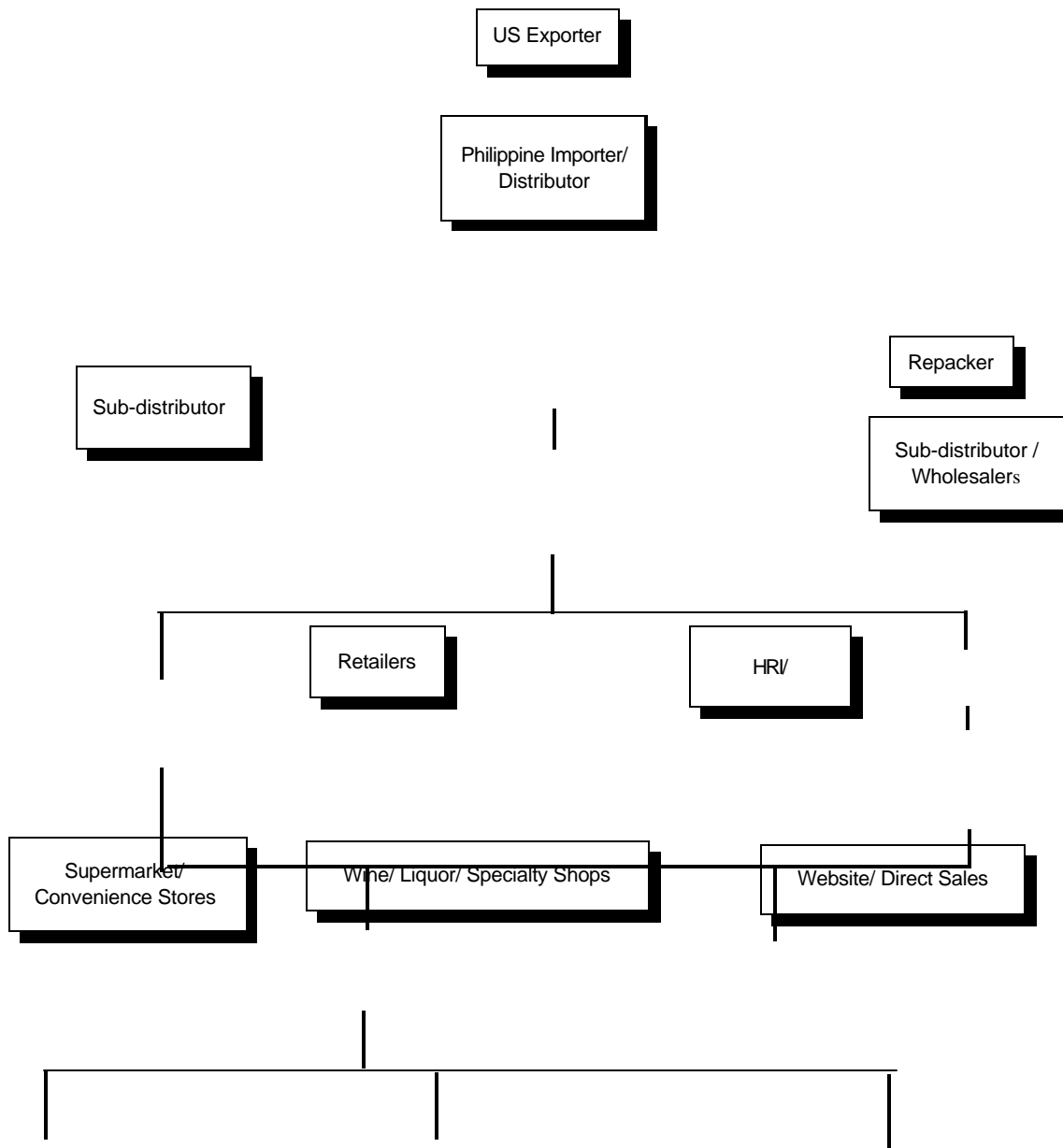
- Letter of application from Importer/ Distributor
- Valid License to Operate
- Product information
- List of ingredients in decreasing order of proportion
- Finished product specification (physico-chemical and microbiological)
- Samples of the product in its commercial presentation
- Loose label and labeling materials to be used for the products
- Estimated shelf-life, parameters used, and methods for determining the shelf-life
- Brief description/ flow diagram of the method of manufacture
- Certificate of analysis, including analytical methods used
- Registration application fee + cost of laboratory analysis

2. Application for registration of imported of imported alcoholic beverages shall include
 - a. Technical specification of raw materials and finished product;
 - b. A certificate of compliance with the country of origin's standards and regulation for alcoholic beverages; and
 - c. A copy of standards and regulations stated in (b).
3. Registration of imported food product are based on the evaluation of the following;
 - a. Product's specifications shall be validated by appropriate certificate analysis from the country of origin or from BFAD recognized laboratory;
 - b. Compliance with the Codex recommended standard for labeling of prepackaged foods and BFAD labeling rules and regulations; and
 - c. BFAD's own examination of the product for verification of conformity to prescribed standards for safety and quality.

Timetable for approval of BFAD application is 90 working days or 3 months, assuming that all documents are complete.

IV. DISTRIBUTION CHANNELS

- Distribution set-up



- Pricing

There are three tiers for the Wholesale Price or the price offered by the importer/distributor to the HRI and retail establishments.

Wholesale Price per Bottle

	in PhP	in US\$
House	Below PhP200	Below \$4
Mid-priced	Below PhP600	Below \$12
Premium	PhP600 and above	\$12 and above

- Trade mark-up

The following computation is provided to give wine exporters an idea of how prices are computed for each stage of distribution from point of entry (C.I.F. Price) to final sale:

Volume: 1x20Fcl = approx. 1,200 cases (12bot/case)

	in US\$
CIF Price (1,200 cases at \$50 per case)	\$60,000
Plus: Customs Duties and Excise Taxes - depending on the declared value	7,000
Sub Total: Landed Cost	67,000
Plus: Mark-up of Distributor (approx. 20-40%) at 20%	13,400
Sub Total: Wholesale Price to HRI/Retail	
1x20Fcl	\$80,400
per bottle	\$5.58

Price to end consumer:

- HRI usually add a 300% mark-up to the end consumer dining in their outlets

Wine List Price per bottle: \$16.75 (at 300% mark-up)

- Retailers usually add a 15-20% mark-up to the end consumer

Suggested Retail Price per bottle:\$6.40 (at 15% mark-up)

- Trade incentives

Part of a distributor's sales pitch to encourage establishments to list the products are various trade incentives and support in the form of merchandising materials, funding to defray the cost of developing promo-specific materials and other incentives.

Marketing support fund

A marketing support fund is requested by some hotels or restaurant establishments to defray the cost of materials for promotional activities. The marketing support fund ranges from \$2,500 to \$5,000 per annum to list the product as the house wine in 3-5 outlets. Others charge \$800 to \$1,200 for wine of the month promotions. The marketing support fund is incorporated by the importer/ distributor into the wholesale price

depending on the projected volumes. Preferred pricing is offered by the importer/ distributor for establishments that do not require a marketing support fund.

Volumes for wine of the month promotions on peak seasons can reach 30-60 cases for the red varietals and 10-20 cases for the white varietals. Volumes for house wines differ depending on the outlet.

Other incentives

Importer/ distributors offer incentives to key accounts to maintain or reach volume targets. Incentives are given in the form of free products, premiums, all-expense paid wine tours, etc.

An incentive that is quite peculiar is known as the “cork incentive” which was initially introduced by one of the forerunners in the wine importation industry. It is an incentive for the front-liners or waitstaff to actively suggest the product to the customer. The cork incentive ranges from PhP20.00 (\$0.40) for house wines to PhP30.00 (\$0.60) for mid-priced to premium wines. Now, it is expected by the trade from every importer/ distributor. It has lost its purpose and adds on to the cost of the product. Importers/ distributors are trying wean the trade from the traditional cork incentive and are now offering small giveaways such as caps, shirts and pens to more premium prizes such as cellular phones, small appliances, watches, etc. to outdo competition, incentives are woven into more innovative mechanics such as accumulation of points in exchange for rewards, team goals, competitions, etc.

V. BEST MARKET ENTRY PRACTICES FOR NEW-TO-MARKET EXPORTERS

Appointing a Distributor

- New-to-market exporters can best penetrate the market by appointing an experienced distributor who has: a) the capacity to facilitate smooth, proper and quick-entry of the product to the country, b) a well established reputation, c) a wide range of HRI and retail trade contacts, and d) a team of seasoned sales and marketing personnel.

Market Testing

- Initial market introduction/ testing can be done by providing product and merchandising samples for the appointed distributor to present to the trade.
- Wine tasting activities can be organized for both the trade and the end consumer to gather feedback on the product, price and promotional strategy.
- It is best to conduct one-on-one product presentation to key decision makers of the HRI and retail establishments (i.e. hotel food and beverage directors, general managers, establishment owners, purchasers, bar managers, etc.) to secure firm orders or commitments to list the product upon arrival and to discuss how the product can be best promoted in the outlet. Some establishments invite importers/ distributors to submit product samples and their respective bids at the end of the year to select the wines that will be listed for the following year. A selection is made after a tasting and evaluation is conducted.
- Advanced orders from the trade or a commitment to list the product is an important task that an importer/ distributor must accomplish prior to ordering.

- The product mix of the initial full-container load can be determined based on experience, advance orders from the trade and projected sales volumes. Following is a typical product mix for a 1x20Fcl:

60% House
25% Mid-priced
15% Premium

Market Introduction

- Advertise the new brand through print and radio depending on the positioning of the brand. Advertorials in trade magazines or lifestyle section of broadsheets is an effective tool that can be used to educate the market or highlight a product's unique selling proposition. Television advertising on local channels offers very low reach and cost-effectiveness due to the presence of numerous cable TV channels.
- The promotional strategy must include a good mix of below-the-line activities such as sponsorship of major special events, product tie-ups, wine tastings/ samplings, wine dinners, wine appreciation seminars and exhibits. The events are often tied-in with the visit of the vineyard's representative such as the winemaker. A public relations campaign can be employed simultaneously to maximize the exposure and create the desired image for the brand.
- Product training for HRI and retail front-liners must be conducted.

Key Contacts: Philippine Importers of Grape Wine

To obtain a list of Philippine importers, please contact:

Agricultural Trade Office - Manila
Foreign Agricultural Service
U.S. Department of Agriculture
Embassy of the United States of America
25th Floor Ayala Life-FGU Building
Ayala Avenue, City of Makati
Metro Manila, Philippines

Tel: (632) 88764970

Fax: (632) 8871268

Email: agmanila@fas.usda.gov